



BUAD 467/667
Service Management
Spring 2008

Professor Patrick T. Harker

Class 1
Introduction

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Outline for the Class

- Overview of the course
- Who's my supplier?
- Administrative details
- The economics of services
- The Service Bundle
- Trends in Service Operations

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Overview of the Semester

- The Service Management Challenge
- Designing Service Delivery Systems
- Measuring Service Operations
- Putting the Pieces Together
- Final or Projects

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Who's My Supplier? Pat Harker

- Former Director of the Fishman-Davidson Center
- Former Special Assistant to the Director of the FBI in charge of technology
- Former Director of the Sloan Financial Services Efficiency Study
- Currently in charge of a large service organization (UD!)
- A disgruntled service consumer

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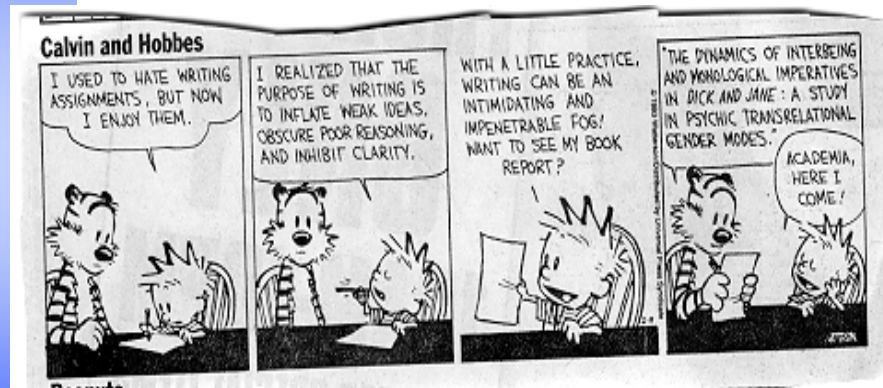
Administrative Details: General

- *Office Hours*: times by appointment
- *TA*: Dan Brown
Office Hours: Wed. 1:30-3:00 and 5:30-7:00pm
- Best to communicate via e-mail: harker@udel.edu
- Home Page:
<http://www.buec.udel.edu/harker/>

Administrative Details: Requirements

- 25% Case Assignments and Homework
(individual homework & group cases – three
of four)
- 25% Midterm Examination
- 30% Final project or exam
- 25% Class participation
(cold-calling will happen!)

What Not to Do in Case Writing



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Administrative Details: Group Projects

- Groups of 5-6 are required for all cases
- In lieu of a final exam, groups can go out and analyze service delivery systems. *This is STRONGLY encouraged!*
 - ◆ Barnes collections queuing problems
 - ◆ Battered Women's Center
 - ◆ Philadelphia Food Bank
 - ◆ Student Financial Aid

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Administrative Details: Course Materials

- Course Pack from school
- *Service Management 6th Edition* by Fitzsimmons and Fitzsimmons
- Course notes are available on-line in *Adobe PDF* format. To access, go to the following WWW address:

<http://www.buec.udel.edu/harker/buad467>

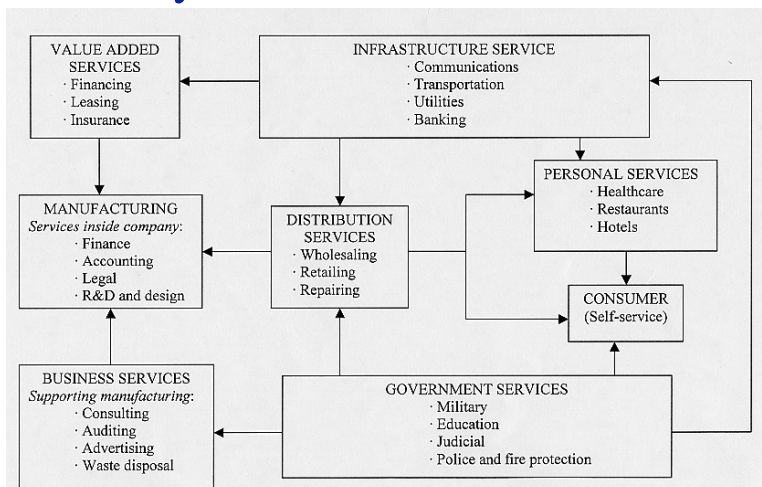
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The Economics of Services

- What is a service?
 - ◆ intangible
 - ◆ perishable
 - ◆ “something you can’t drop on your foot!”
- Classification of services
 - ◆ distributive, retail & wholesale trade, nonprofits, producer services (FIRE, business services), consumer services, government
 - ◆ there is no such thing as a “pure” service

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The Role of Services in the Economy



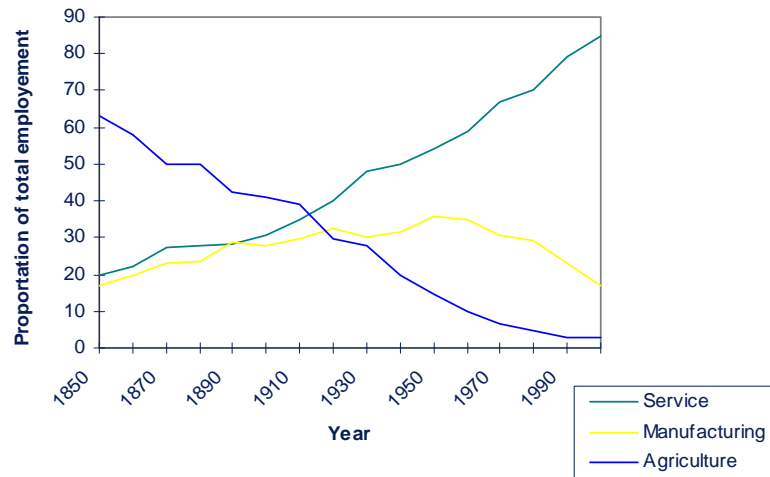
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Myths & Facts Surrounding Services

- services are just “Hamburger Flippin”
 - ◆ Health care and education?
- Services are not capital intensive
 - ◆ finance and transportation
- All services are low wage jobs
 - ◆ except for retail trade, service wage and manufacturing wages are almost identical (10% off)
- Japan and Germany are great because of manufacturing!

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Growth in the Share of Service Jobs



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Why This Growth in Services?

- *outsourcing: services have been transferred from manufacturing firms and households; mixed evidence 1970: 6.7% of manufacturing in producer services, 7.2% in 1980, not major.*
- *increased governmental regulations; income growth seems to be the main driver in the growth of lawyers*
- *increased customization of output; selling the “service bundle” is especially true in computers, others??*

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The Linder Beast

changing tastes of consumers/producers; the impact of increased value of time

LINDER - The Harried Leisure Class (1970)

max utility

s.t. money expenditures $<$ (wage) x (hours of labor)

time expenditures $<$ 24 hours

As wages rise due to productivity increases, the income effect pushes one to want to spend more time in leisure.

However, the substitution effect causes us to want to work more. As wages rise higher and higher, it's difficult to say no!

Consequences:

- to increase the marginal utility for each hour, will tend to consume more goods per unit time
- decrease low utility leisure activities (the demise of mistresses)
- creation of low and high wage churches
- decline in quality/ maintenance
- others?

Implications:

- services will grow as we personally and as managers shed time-consuming activities (focus)
- time-based marketing will grow in importance

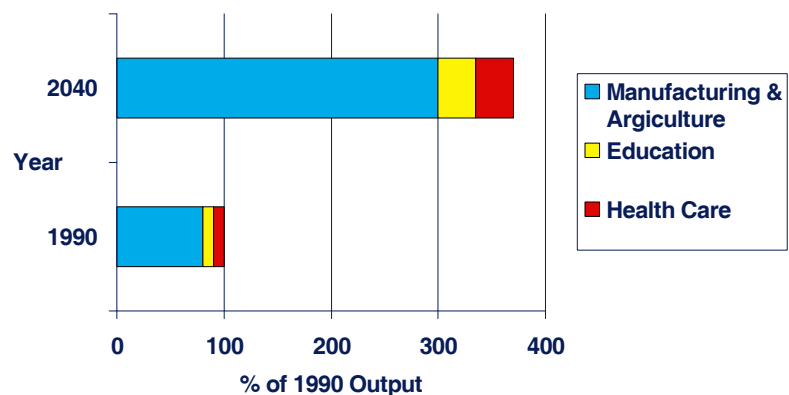
Baumol's Cost Disease: *The Role of Low Productivity*

- this is not just a U.S. phenomenon
- the string quartet: low productivity in action
- we are actually consuming less services!
- is this cost increase necessarily bad? Baumol's *Private Affluence, Public Squalor* argument
- is all gloomy; a critique

What's the truth about service growth?

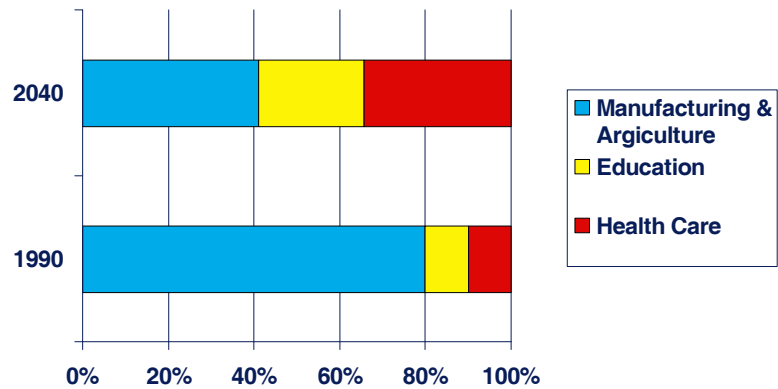
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Hypothetical Changes in Total Output 50 Years, Assuming Historic Sectoral Productivity Rates



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Hypothetical Change in Total Spending 50 Years, Assuming Historic Sectoral Productivity Rates



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The New Experience Economy

Economy	Agrarian	Industrial	Service	Experience
Function	Extract	Make	Deliver	Stage
Nature	Fungible	Tangible	Intangible	Memorable
Attribute	Natural	Standardized	Customized	Personal
Method of supply	Stored in bulk	Inventoried	Delivered on demand	Revealed over time
Seller	Trader	Manufacturer	Provider	Stager
Buyer	Market	User	Client	Guest

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The Four Realms of an Experience

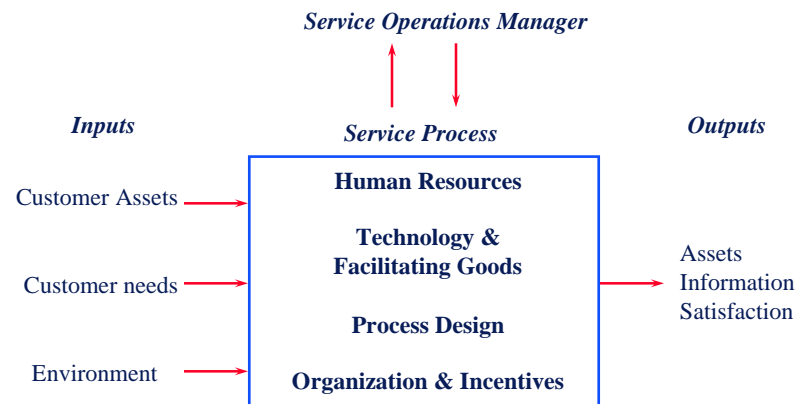
Customer Participation

Passive *Active*

Environmental	<i>Absorption</i>	Entertainment (Movie)	Education (Language)
	<i>Immersion</i>	Esthetic (Tourist)	Escapist (ScubaDiving)

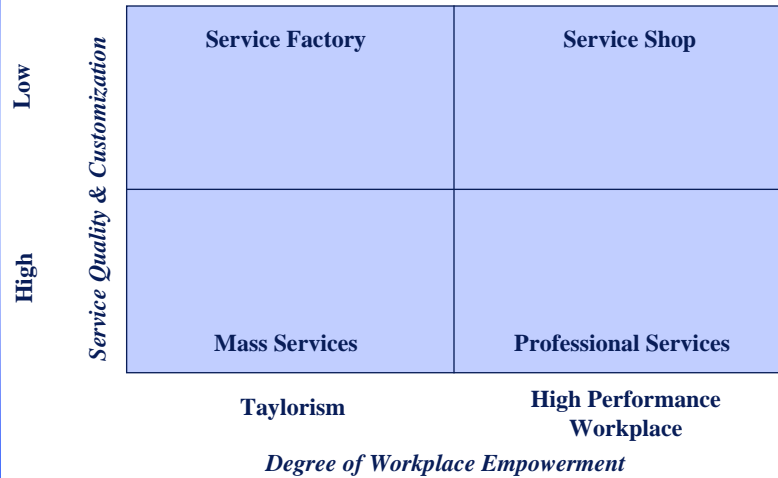
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Open Systems View of a Service System



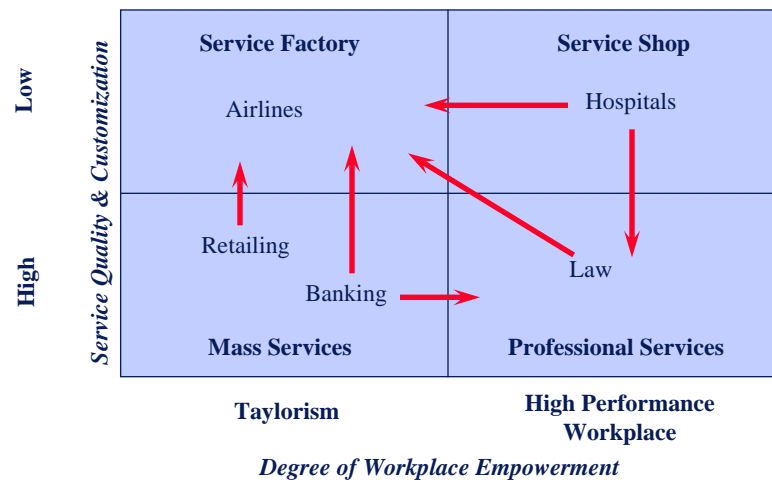
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Strategic Operations in Services



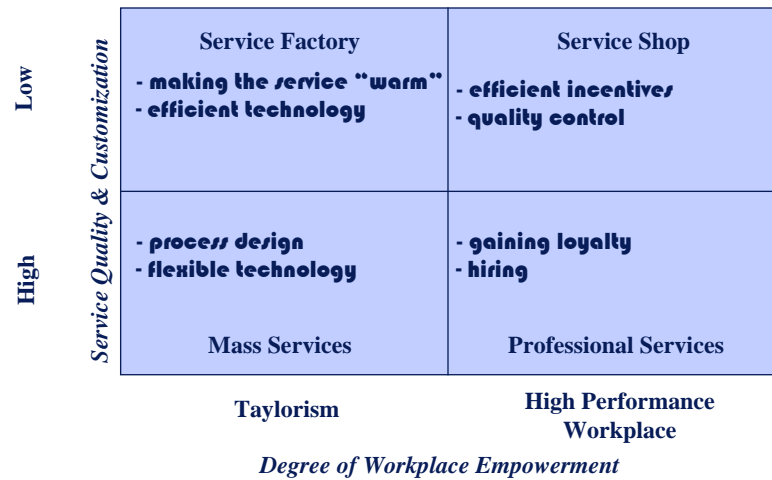
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Strategic Operations in Services (cont'd)



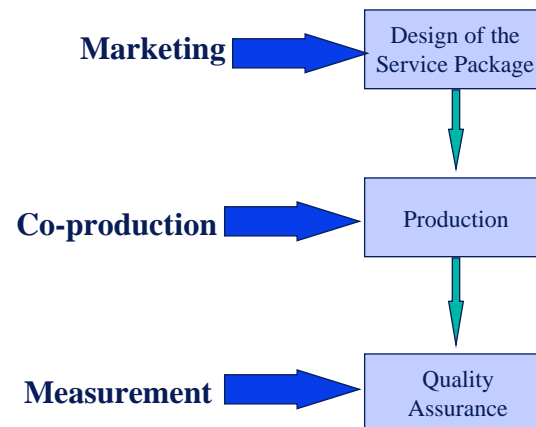
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Management Challenges



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Where's the Customer?



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Trends in Service Operations

- generating new markets/ industries: ebay
- increased customer participation & move toward “mass-produced services”; the U.S. vs. European views
- increased service content of goods
- internationalization; exports and the back-office off-shore
- “tangibilization” of services: consulting and IS
- others?

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For Next Class:

- Read the case *Commerce Bank* and be prepared to address the questions in the syllabus; the founder of the bank, Mr. Vernon Hill, will be here so have your questions ready!

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